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C O N F I D E N T I A L SECTION 01 OF 05 PORT LOUIS 000381

SIPDIS

AF/E FOR MARIA BEYZEROV
JOHANNESBURG AND CAPE TOWN FOR FCS

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [ETRD](#) [EINV](#) [SE](#)

SUBJECT: PARADISE LOST: HOW CORRUPTION BANKRUPTED SEYCHELLES

REF: A. A) PORT LOUIS 267

[1](#)B. B) PORT LOUIS 316

[1](#)C. C) PORT LOUIS 365

Classified By: Ambassador Cesar B. Cabrera for reasons 1.4 b and d.

[1](#)1. SUMMARY: (SBU) An overall lack of transparency and corruption throughout the ranks are behind the Seychelles' recent international appeal for help after a chronic lack of foreign exchange, loan defaults, drastic inflation, and an excessive debt burden of 175 percent of GDP effectively left the country bankrupt. After defaulting twice on government debt payments, Seychelles will be forced to accept economic reforms they have so long rejected and possibly confront and correct a seemingly corrupt, government controlled, opaque economic system. END SUMMARY.

CURRENT SITUATION

[1](#)2. (U) According to studies conducted by various International Monetary Institutions (IMI) as well as the Seychelles Chamber of Commerce and Industry (SCCI), Seychelles has been flirting with bankruptcy for years due to poor economic policies, severe foreign exchange shortages, and excessive state control of the economy. Despite having a per capita GDP of 10,000 USD and being classified as an "upper-middle income" country by the World Bank, the Seychelles recently was forced to the breaking point due to rising inflation and perennial shortages of foreign exchange.

[1](#)3. (U) In July 2008, lack of foreign exchange led to Seychelles defaulting on a principal and interest repayment of a 85 million USD private placement note causing international credit rating agency Standard and Poors (S&P) to downgrade the country's foreign currency sovereign credit rating to Selective Default (SD) from the already low rating of CCC/C. The July default prompted S&P to lower the credit rating on Seychelles 230 million USD global bond, which matures in 2011, to CCC- from CCC, in anticipation of the government also defaulting on this loan, which indeed did happen in early October 2008.

[1](#)4. (U) According to an October 29 Reuters Africa report, the government is asking 12 percent of its civil service, the largest employer in the nation, to "voluntarily" resign in order to cut costs on the national economy, which has a debt burden that, according to government statistics, equals about 175 percent of GDP. On November 3, international press

reported that after exchange controls on the Rupee were lifted in accordance with the new IMF program, the Rupee depreciated 78 percent to the U.S. Dollar moving the exchange rate from USD 1 = SRs 8 to USD 1 = SRs 14.29. This coupled with the global credit crisis is sure to peak already high inflation rates in Seychelles.

15. (C) The credit downgrades and continued defaults coupled with an all time high year-on-year inflation rate of 31.6 percent driven by rising food and oil prices suggest that Seychelles will have a difficult time securing foreign loans to continue to finance their debt. The Paris Club lenders stance to reject a request to reschedule Seychelles' debt until they worked with the IMF on a comprehensive program made Seychelles' desperation more apparent.

REASONS GIVEN FOR THE CURRENT CRISIS

16. (C) A quick glance at international headlines on the Seychelles economy will suggest that this small, net-importing island nation is a victim of the global financial crisis, or rising commodity prices. The Seychelles Government (GOS) offers vague official statements that cite "irregularities" or "errors" as a reason for recent defaults on debt payments. Even though it is clear that the current global economic situation has exacerbated the problem, history, local contacts, and recent occurrences suggest instead that Seychelles faces this situation due to internal culprits -- especially the lack of transparency, government

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cronyism, and corruption.

17. (C) International bodies, including USG advisors, have warned Seychelles for many years that their economy was in need of drastic reform. For example, in 2005, a visiting World Bank team urged them to prepare an 'Economic Restructuring and Debt Workout' plan and provided them with a proposed timetable for its implementation. Key first steps in this plan included devaluing the currency, privatizing state-owned enterprises, and meeting with donors to address debt in arrears. Even before the World Bank suggestions, Paris Club lenders urged Seychelles to adopt an IMF program and devalue their currency. Seychelles remained defiant to these suggestions. In 2006, the Permanent Secretary at the Ministry of Finance (MOF) explicitly told a USG-funded debt management advisor that GOS would not consider currency devaluation in the immediate future. Furthermore, despite the exasperating effects that overvaluing the rupee had on foreign exchange and GOS' ability to pay off foreign debt, the Central Bank of Seychelles (CBS) and MOF Debt Management Team encouraged the USG advisor to focus on domestic debt only, even though at the time GOS had just taken out a 200 million dollar global loan (approximately 1/3 of GDP) with a 2011 maturity date.

18. (C) Although government officials cited concerns for short-term social unrest as the reason they avoided implementing economic reform, opposition leaders, private sector representatives, and others -- in private meetings with EMBOFFS -- all pointed to fraud and corruption as the real reason. Continued pressure from the IMF and multilateral lenders to undertake reform measures caused GOS to finally accept the need to introduce modest reform in late 2006 to allow the rupee to fall from USD 1= SRs 5.50 to USD 1 = SRs 8, announce moderate privatization of the Seychelles Savings Bank and several units of the former Seychelles Marketing Board (renamed the Seychelles Trading Company (STC)), and use budget surpluses to pay down domestic debt.

19. (C) GOS acceptance to undertake these reforms seems positive until one considers that shortly after initiating reforms, GOS halted the depreciation of the rupee leaving it overvalued, as witnessed by its persistent trading on the

black market. The STC does not have any buffer stock of commodities, so price inflation was immediate at the onset of economic reform, which wreaked havoc on foreign exchange reserves, so the GOS remained hesitant to restart depreciation measures (Note: On November 3, GOS lifted exchange controls due to a mandate by the new IMF program. End Note.) In addition, even the moderate privatization announced concerning the Savings Bank and STC has yet to take place, and according to Post contacts in the private sector, there is still reason to suspect that budget surpluses will continue to be spent on government projects instead of financing domestic debt.

¶10. (C) In a September 2008 conversation, local businessmen and SCCI members told ECONOFF that they have little faith in the government paying down its domestic debt (currently 2/3 of GDP) with budget surpluses because throughout the years, the government has consistently put any reported surplus into heavily lauded but ineffective government projects. One businessman noted the 25 million USD desalination project, championed by the head of the ruling Seychelles People's Progressive Front (SPPF) and, by most accounts, real ruler of Seychelles, Albert Rene as the project that would make water shortages something of the past. To date, Seychelles has water shortages and the plant still does not work. In another example, local businessman Marc Hoareau, mentioned the prawn farm in Coetivy Island as another lionized initiative that has not lived up to its billing, left the country indebted some 75 million USD, and could not be sold to any private management company because it was deemed non-competitive on the world market.

SHADY LINKS BETWEEN BUSINESS AND GOVERNMENT

¶11. (C) According to the Indian Ocean Newsletter, a weekly periodical sponsored by Indigo Publications, the government

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could not find a buyer for the prawn project on Coetivy Island, so it decided to cut its losses and sell the island for 117 million USD to Indian businessman and recently president-appointed Ambassador-At-Large, Chinnakannan Sivasankaran, or as the locals call him, Siva. Reportedly, Siva will use the island to create a tourist complex of ten 250 room hotels. Although this seems like it could be a regular business deal, many local contacts tell EMBOFFS that business deals like these, that hint at corruption and are motivated by political gains with little regard to the local economy, are destroying Seychelles' economic future.

¶12. (C) SCCI Chairman Albert Payet recently told POLOFF that in 2004, when the SCCI met with MOF, the SCCI recommended amending the Tourism Incentive Act (TIA) so that once tourism was operating at almost full capacity, investors and hotels would receive fewer concessions, but to their chagrin, the new TIA released earlier this year granted even more concessions. Official MOF documents dated November 26, 2007, show concessions given to the Ephelia Resort which exempts the resort from 75 percent of the regular taxes imposed on an investor. Moreover, SCCI members reported with disappointment that many tourist resorts (specifically citing North Island, Le Marriott, The Banyan Tree, and the Silhouette) that do their business primarily in foreign currencies effectively bring little foreign exchange (FOREX) through Seychelles banks because of retention rates that allow some to retain up to 100 percent in foreign coffers.

¶13. (C) In an October 30 meeting, Ralph Vocere, editor of a local paper and member of an opposition party, illustrated the situation further with an anecdote about the Barbaron Hotel, the hotel with reportedly the most revenue earned in FY 2008. According to Vocere, the foreign owners of Barbaron Hotel also have a commanding stake in Aitel Phone Services, which is a big local phone service provider that does 95

percent of its business in rupees. The owners could not repatriate the funds from Aitel given the current status of the rupee, so GOS reportedly made a deal with the owners that they could invest in a local hotel to earn foreign exchange and would be able to keep 100 percent of their earnings. This is allegedly how the owners bought the Barbaron Hotel and now are able to retain 100 percent of the FOREX. Contrastingly, according to post contacts, local Seychellois hoteliers are allowed to keep only 15 percent of the foreign exchange they earn.

¶14. (C) Vocere reports that corruption, coupled with the selling off of lands to what he calls the "business mafia," is what is holding back the Seychelles economy. He believes that until this problem is tackled, the IMF and World Bank can keep attempting to help the Seychelles, but it will be to no avail. Vocere added that the "mafia" consists of key Seychellois figures such as SPPF chief Albert Rene and other SPPF cronies, Indian businessman Siva, local businessmen the Savy brothers, and "Arab investors." "Mafia" member or not, no one can deny that Siva has profited from his time in Seychelles. He now owns many business, three islands in the Seychelles archipelago, and was nominated Ambassador-at-Large by President Michel after only being in Seychelles for about a year. This nomination was supposedly a reward for bankrolling Seychelles debt and providing money to government officials. Soon after awarding him the position, the Government of Seychelles requested a U.S. diplomatic visa for Ambassador-at-Large Siva. When Post requested information as to the plans and nature of the diplomatic trips planned by Siva, the GOS withdrew the application.

¶15. (C) According to Vocere, the current IMF team has uncovered 3 billion USD in overseas Seychellois bank accounts. The day after Vocere made this information public during a delivered speech in downtown Victoria on November 4, he was arrested on charges of "unlawful assembly" and remains detained. This is not the first time Vocere has been detained for criticizing the government. In October 2008, Vocere's printing press was shut down by the Seychelles government and he traveled to Mauritius to print his opposition paper. According to the GOM, the Mauritians detained Vocere at the airport because of a tip from the Seychelles authorities that he was smuggling heroine into Mauritius. No heroin was found and the GOM released him

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without any charge.

¶16. (C) When asked about possible corruption on a local television program on September 4, Guy Adams, the head of Seychelles Petroleum Company -- one of the largest and most profitable companies in the nation -- said that his company had not been properly audited in 20 years. This would have made it easy, he declared, to siphon off millions of dollars if had wanted to do so.

CHANG-LENG: CHARACTER OF CORRUPTION

¶17. (SBU) While corruption allegations surround many SPPF partisans and associates, no figure has received as much negative attention for the current crisis as former Central Bank Governor, Francis Chang-Leng. Admittedly, there were many reports in local press accusing Chang-Leng of corruption before the recent loan defaults, but even if there were truth to the claims none was substantiated beyond normal Seychelles gossip. Among the many allegations against Chang-Leng, one promulgated by many sources is that he spent 8 million SRs of Seychellois taxpayer rupees to treat a select group of female employees that he calls his "Strategic Team" to overseas trips with him.

¶18. (C) While in recent meetings with ECONOFF, Chang-Leng dismissed the Seychelles loan default as an "irregularity,"

local press reported that Chang-Leng unilaterally issued the government debt that caused the default and that it was months before the Ministry of Finance or President knew about it. Press reports also suggested that the Lehman Brothers' representative who bought the risky debt had close ties with Chang-Leng and alleged that some money issued had been pocketed by Chang-Leng. In an October 30 meeting, Ralph Vocere said that he has been accumulating corruption evidence against Chang-Leng, but was waiting for the right time to release it. Vocere believes Chang-Leng's recent streak of independence and his recent vacating of his CBS post leaves him vulnerable for the attack, which will force President Michel's hand to investigate the claims. Even with hard facts of corruption, the general take from many Post contacts is that a conviction of Chang-Leng will be difficult due to "a weak judiciary."

JUDICIARY

¶19. (C) Another suspicious situation is the liquidation and subsequent sell-off of The Plantation Club, formerly the second largest hotel in Seychelles. On August 5, Judge Andrew Ranjan Perera ordered the liquidation and helped the GOS -- who only held an eight percent share -- shutdown the hotel. The next day, Perera was made Chief Justice. Local media reported that Perera was appointed Chief Justice as a reward for his judgment in SPPF's favor. This raised concerns of the local private sector community and the opposition press. The perception and allegations of government corruption grew when the hotel was eventually sold off to the lowest bidder out of three, European Hotels and Resorts Limited, a newly formed group of hotel investors with ties to the SPPF establishment and a Saudi businessman, Sheikh Abdul Mohsin bin Abdulmalik Al-Shaikh, who has, according to the previous owner, threatened to force the former owner, a U.S. Citizen, out of business since 2006. European Hotels and Resorts Limited's directors, lawyers, and bankers have direct links to the Saudi businessman.

¶20. (C) According to many sources, including the former Plantation Club owner and SCCI members, the Plantation Club ruling is only one of many corrupt rulings by the weak Seychelles judiciary. The constitution states that the judiciary is independent; Embassy contacts, such as Seychellois lawyer Frank Elizabeth, say that this is not the case. For example, most court judges are either naturalized citizens or citizens of other Commonwealth countries, such as Tanzania, Uganda, and Sri Lanka. There is only one Supreme Court judge, one appeals court judge, and two magistrate court judges who are citizens by birth. Initially,

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recruiting foreign judges and magistrates made up for the lack of professionals in the years following independence, but today Post contacts report that the foreigners are put in these positions because they are more malleable. Allegations abound that the government also uses a patronage system to yield influence over the judiciary. For example, Former Chief Justice Vivekanand Alleaar, a Mauritian citizen who resigned in January 2008 after numerous allegations of corruption, is rumored to have received prime real estate for a development project from the SPPF and funding for his son's education in England for his loyalty to the party.

Comment

¶21. (C) For all of the speculation and shadowy figures in Seychelles, it is hard to get any concrete evidence to point at any one person. The plethora of circumstantial evidence, however, does support that there is significant corruption in the system. Post believes that corruption is the critical reason why a country as wealthy as Seychelles (900 million

USD GDP) has suffered so many persistent economic problems. The current IMF economic reforms coupled with the global financial crisis are sure to have drastic social implications in the Seychelles. Although sharp inflation, and job loss may cause social unrest, it could also lead to Seychellois finally confronting the corruption behind the system that put them in this mess.

CABRERA